

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 SSO-00 NSCE-00
USIE-00 INRE-00 AID-05 CIAE-00 EB-08 FRB-01
INR-07 NSAE-00 XMB-04 OPIC-06 SP-02 LAB-04 SIL-01
OMB-01 NSC-05 SS-15 STR-04 CEA-01 EURE-00 PRS-01
PA-02 AGRE-00 /112 W
-----131747Z 057201 /46

O R 131715Z APR 77
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC IMMEDIATE 2612
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDEL MTN GENEVA
USDOC WASHDC

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DEPARTMENT PASS FEDERAL RESERVE BOARD

TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD APR. 7 - 13

SUMMARY: THE CHANCELLOR'S HINT OF FURTHER TAX CUTS AND A
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SHARPLY REDUCED CENTRAL GOVERNMENT BORROWING REQUIREMENT
IN FY 76/77 HIGHLIGHT AN OTHERWISE QUIET EASTER HOLIDAY
PERIOD. STERLING KEPT ITS POISE IN THE FACE OF MOVEMENTS
IN OTHER CURRENCIES, AND FINANCIAL MARKETS WERE CALM.
END SUMMARY.

1. STERLING HAD A QUIET WEEK AS THE EASTER HOLIDAYS

MODERATED TRANSACTION VOLUME AND MARKET ATTENTION WAS FOCUSED, INTER ALIA, ON THE YEN AND THE DOLLAR. THE DOLLAR'S SHARP DECLINE ON TUESDAY BROUGHT THE POUND LOWER AGAINST THE CURRENCIES OF OTHER TRADING PARTNERS. AS THE INDEX OF THE EFFECTIVE EXCHANGE RATE FELL TO 61.6 AT TUESDAY'S CLOSE FROM A 61.8 LEVEL AT THURSDAY'S, THE PRECEDING BUSINESS DAY'S, CLOSE. DEMAND FOR STERLING, ESPECIALLY THAT FROM NORTH AMERICA, HAS BEEN REASONABLE THIS WEEK, HOWEVER, AND THE BANK OF ENGLAND ALLOWED THE POUND TO APPRECIATE 7 POINTS AGAINST THE DOLLAR ON TUESDAY TO CLOSE AT \$1.7195.

2. THE CHANCELLOR HINTS AT FURTHER TAX CUTS. THE BUDGET AND EXCHANGE RATE MANAGEMENT WERE THE MAIN THEMES OF THE APRIL 6 MEETING OF THE TRIPARTITE NATIONAL ECONOMIC DEVELOPMENT COUNCIL. ACCORDING TO PRESS REPORTS, THE CHANCELLOR OF THE EXCHEQUER TOLD THE TRADE UNIONS AND INDUSTRY REPRESENTATIVES THAT HE WOULD CONSIDER GIVING "GREATER STIMULUS TO THE ECONOMY" SHOULD FAVORABLE TRENDS CONTINUE. SUCH A STIMULUS WOULD DEPEND ON THE OUTCOME OF THE CURRENT TALKS WITH THE TUC OVER A FURTHER PAY DEAL AS WELL AS THE BEHAVIOR BOTH OF THE PUBLIC SECTOR BORROWING REQUIREMENT (PSBR) AND THE CURRENT ACCOUNT OVER THE COMING MONTHS.

HEALEY'S HINTS ABOUT FURTHER STIMULUS HAVE THE PRESS SPECULATING ON AN AUTUMN BUDGET. THE SCOPE FOR INCOME TAX CUTS DERIVES FROM A VARIETY OF ELEMENTS INCLUDING:

- LOWER THAN ANTICIPATED INTEREST PAYMENTS DURING FY 77/78;

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- THE EXPECTATION THAT THE SURPRISINGLY EFFECTIVE CASH LIMITS SYSTEM WILL AGAIN HOLD PUBLIC EXPENDITURE BELOW TARGET LEVELS;

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- A MORE RAPID MOVEMENT INTO SUSTAINED CURRENT AC-
COUNT SURPLUS.

THE FIRST TWO ELEMENTS WOULD REDUCE PSBR BELOW THE CUR-
RENTLY PLANNED 8.5 BILLION POUNDS IN FY 77/78 WHILE THE
THIRD WOULD EASE ANY PRESSURE ON DOMESTIC CREDIT EXPAN-
SION THUS CREATING FURTHER LEEWAY FOR TAX CUTS. THE
CHANCELLOR CAREFULLY HEDGED HIS BETS WHEN HE SPOKE OF
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THE NEED TO MONITOR BOTH THE PSBR AND THE CURRENT ACCOUNT
AS WELL AS OF CONCLUDING AN ACCEPTABLE THIRD YEAR PAY
DEAL.

THE MEETING ALSO DEVOTED CONSIDERABLE TIME TO DISCUS-
SING A PAPER ON EXCHANGE RATE MANAGEMENT PREPARED BY THE
NEDC SECRETARIAT. THE PAPER IS SAID TO ARGUE THAT U.K.
EXPORT COMPETITIVENESS DEPENDS IMPORTANTLY ON NON-PRICE
FACTORS SUCH AS DELIVERY TIMES, QUALITY. AND SERVICE AS
WELL AS ON PRICE. AS A RESULT, ECONOMIC POLICY SHOULD
NOT DELIBERATELY AIM AT MECHANICALLY DEPRESSING THE EX-
CHANGE RATE TO INCREASE EXPORT VOLUME

THE CONFEDERATION OF BRITISN INDUSTRY, (CBI) WHICH
REPRESENTS THE BUSINESS COMMUNITY AT THE MONTHLY NEDC

MEETING, CHALLENGED SOME OF THE VIEWS EXPRESSED IN THE THE SECRETARIAT'S PAPER IN A SEPARATE SUBMISSION. CBI STRESSED THE IMPORTANCE OF PROFIT MARGINS TO EXPORTERS AND EXPRESSED THE FEAR THAT THESE WOULD BE ERODED SHOULD THE EXCHANGE RATE NOT BE ALLOWED TO REFLECT RELATIVE RATES OF INFLATION.

3. FINANCIAL MARKETS WERE QUIET OVER THE EASTER WEEK. SHORT-TERM RATES SHOWED VERY LITTLE MOVEMENT, WHILE LONGER RATES CONTINUED THE CLIMB WHICH BEGAN LAST WEEK. LONG TERM GILT PRICES ROSE OVER A POINT IN THE WEEK ENDED APRIL 13.

LAST WEEK'S RETREATING GILT PRICES LEFT THE ANNOUNCED YIELD ON THE NEW GILT ISSUE, THE EXCHEQUER 12-1/4 PERCENT 1992. HIGHER THAN THE YIELDS ON COMPARABLE OUTSTANDING GILTS ON APRIL 6 WHEN SUBSCRIPTIONS WERE DUE. AS A RESULT THE ISSUE WAS UNDERSUBSCRIBED AND IS SELLING AS A TAPSTOCK. MARKET SOURCES ESTIMATE THAT ONLY 200 MILLION POUNDS OF THE 800 MILLION POUND (FULLY PAID, NOMINAL VALUE) ISSUE WAS TAKEN ON APRIL 6.

4. CENTRAL GOVERNMENT FINANCIAL TRANSACTIONS. CENTRAL GOVERNMENT BORROWING IN FY 76/77 WAS SHARPLY LOWER THAN UNCLASSIFIED

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FORECAST A YEAR AGO. THE CENTRAL GOVERNMENT BORROWING REQUIREMENT (CGBR) FOR THE FISCAL YEAR WAS 5.835 BILLION POUNDS COMPARED WITH AN ORIGINAL FORECAST OF 10.426 BILLION AND AN ACTUAL CGBR OF 8.807 BILLION POUNDS IN FY 75/76. A COMBINATION OF HIGHER THAN ANTICIPATED REVENUES AND LOWER THAN ANTICIPATED EXPENDITURE PRODUCED THE SHARP REDUCTION IN BORROWING. THE FOLLOWING TABLE SUMMARIZES THE FY 76/77 RESULTS:

POUNDS MILLION

FORECAST

1976/77 1976/77 ERROR MARCH

CONSOLIDATED FUND FORECAST ACTUAL (P/C) 1976 1977

REVENUE 33,197 33,778 1.8 2,409 2.820

EXPENDITURE 39,915 39,372 1.6 3,445 4'186

DEFICIT MET FROM THE

NATIONAL LOANS

FUND -6,718 -5,594 16.7 -1'036 -1,366

OTHER NATIONAL LOANS

FUND (1)

RECEIPTS 4,900 4,534 7.5 437 789

PAYMENTS 8,932 5,474 38.7 814 750

TOTAL NET BORROWING BY

NATIONAL LOAN

FUND -10,750 -6,354 40.9 -1.413 -1,327

OTHER FUNDS AND

ACCOUNTS 324 699 115.7 72 121

CENTRAL GOVERNMENT

BORROWING REQUIRE-

MENT -10'426 -5,835 56.0 -1,341 -1,206

(1) - EXCLUDING NATIONAL DEBT AND OTHER TRANSACTIONS CON-
CERNED WITH THE FINANCING OF THE BORROWING REQUIRE-
MENT.

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5. EXCHANGE RATE AND GOLD

EFFECTIVE EXCHANGE

RATE (DEC. 1971
EXCHANGE EQUALS GOLD
DATE RATE (\$) 100 (\$)
4/6 1.7193 61.8 148-5/8
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4/7 1.688 61.8 148-7/8
4/8
" MARKETS CLOSED
4/11 ' MARKETS CLOSED
4/12 1.295 61.6 149-7/8
CHANGE 4/5-4/12 WN 0.0004 FELL 0.2 UP 1

6. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
4/6	0.60	1.80	3.55
4/()8	0.55	1.77	3.55
4/8	MARKETS CLOSED		
4/11	MARKETS CLOSED		
4/12	0.60	1.75	3.53

CHANGE 4/5-4/12 WIDEN 0.05 NARROWED 0.05 WIDEN 0.15
(ALL FIGURES IN CENTS)

7. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
4/6	5	5.1/4	5-5/8
4/7	5-1/8	5-1/8	5-5/8
4/8	MARKETS CLOSED		
4/11	MARKETS CLOSED		
4/12	4-7/8	5-1/4	5-1/2

CHANGE 4/5-4/12 DOWN 1/8 UNCHANGED DOWN 1/8

8. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST
RATE DIFFERENTIAL

DATE	
4/6	3-11/16
4/7	3-23/32
4/8	MARKETS CLOSED
4/11	MARKETS CLOSED
4/12	3-19/32

CHANGE 4/5-4/12 NARROWED 1/32

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9. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
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4/6	8-7/8	8-7/8	8-7/8
4/7	8-3/4	8-3/4	8-7/8
4/8	MARKETS CLOSED		
4/11	MARKETS CLOSED		
4/12	8-23/32	8-45/64	8-59/64

CHANGE 4/5-4/12 DOWN 3/32 DOWN 7/64 UP 3/64

10. THE MINIMUM LENDING RATE WAS ALLOWED TO FALL BY 1/4 PERCENT TO 9-1/4 PERCENT IN CONCERT WITH THE 0.2464 PERCENT FALL TO 8.5179 PERCENT IN THE TREASURY BILL RATE AT THE APRIL 7 AUCTION. BIDS OF 1.073.08 MILLION POUNDS WERE RECEIVED FOR THE 500 MILLION POUNDS IN BILLS TENDERED. THIS WEEK 300 MILLION POUNDS IN BILLS WILL BE OFFERED AS A SIMILAR AMOUNT MATURES.

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Message Attributes

Automatic Decaptioning: X
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Copy: SINGLE
Sent Date: 13-Apr-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770128-0542
Format: TEL
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770462/aaaacbsm.tel
Line Count: 348
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 1d5b35a6-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
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Review Date: 28-Oct-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
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Review Release Date: n/a
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Review Withdrawn Fields: n/a
SAS ID: 2822741
Secure: OPEN
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Subject: ECONOMIC DEVELOPMENTS FOR PERIOD APR. 7 - 13 SUMMARY: THE CHANCELLOR'S HINT OF FURTHER TAX CUTS AND A
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TAGS: ECON, UK
To: TRSY STATE
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